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The Autumn Mini Budget Overview 2022

Introduction

So what was it? A 'fiscal event'? A Mini Budget? Or a full-blown Budget from a new Chancellor determined to take the UK in a very different direction from previous occupants of 11 Downing Street? As we will see in more detail below, reactions to the measures introduced by Kwasi Kwarteng on Friday September 23rd were sharply divided.

Saturday morning's papers, though, were quick to deliver their verdict. 'At last! A True Tory Budget' was the Mail's headline. 'We've got the courage to bet big on Britain,' said the Express. The gambling theme was repeated in other papers. 'Kwarteng gambles on biggest tax cuts in half a century' was the Telegraph headline, while the Times went with 'Truss's great tax gamble'.

Irrespective of whether it was a 'fiscal event' or a full Budget, there was a lot to digest. We've detailed all the measures below, but first, let's look at the background to Kwasi Kwarteng's radical measures.

The political background

In July 2019, Boris Johnson replaced Theresa May as leader of the Conservative Party and Prime Minister. Liz Truss, MP for South West Norfolk and a supporter of Johnson in his leadership campaign, was appointed International Trade Secretary. Lower down the ministerial ladder, Kwasi Kwarteng, the MP for Spelthorne, was made a Minister of State at the Department for Business, Energy and Industrial Strategy.

Five months later, Boris Johnson led the Conservatives to an 80-seat majority in the General Election on a promise to 'Get Brexit Done'. His position appeared to be impregnable, but as we now know, he was forced to resign in the summer of 2022. The subsequent battle to replace him eventually came down to a straight fight between Liz Truss and former Chancellor - and early favourite - Rishi Sunak. Eventually, Truss won out, after endearing herself to Conservative members with a series of commitments to cut taxes.

She became Prime Minister on September 6th and, with the Queen's death just two days later, also became the first Prime Minister to serve both a king and queen for well over a hundred years. Many people had expected Sunak's successor, Nadhim Zahawi, to continue as Chancellor, but instead, Liz Truss opted for Kwasi Kwarteng - widely regarded as being on the right of the Conservative Party and a staunch advocate of tax cuts.

The death of the Queen, the national period of mourning and the approaching party conference season meant that the timetable for the fiscal event was shortened. Budget speeches are normally delivered on Wednesday lunchtime, after Prime Minister's Questions. This time, Kwarteng delivered his package of measures on Friday morning, ahead of the Labour Party Conference in the last week of September and the Conservative Conference the following week.

The economic background

'Neither a borrower nor a lender be.' Many of you will know that famous quotation from Hamlet, but over the last two years, the UK Government has had little choice other than to be a borrower - and to be a borrower on an almost unprecedented scale.

A document published by the House of Commons library revealed that borrowing for 2020/21 was £167 billion higher than had been planned before the pandemic. Total spending to deal with coronavirus was put in the range of £310 billion to £410 billion.

That document, however, was optimistic about the cost of servicing the extra borrowing. Published in March 2022, it said: "The cost of borrowing is currently very low [but the public finances are] vulnerable to an increase in these costs."

This, of course, is exactly what has happened. The rising cost of energy and the global supply chain crisis has caused inflation on a scale not seen for years: in order to try to keep a lid on inflation, central banks have increased interest rates - which, in turn, have increased the cost of servicing the UK's debt.

And there was more debt to come. Within days of becoming PM, Liz Truss had committed to borrowing 'up to £150 billion' in order to cap a typical household's energy bill at £2,500 a year until 2024. "Extraordinary times call for extraordinary measures," she said.

Meanwhile, the cost of servicing the equally extraordinary borrowing was rising. On September 22nd, the Bank of England raised interest rates by 0.5% to 2.25% and conceded that the 'UK may already be in recession'.

Rising rates meant that the Government borrowed £11.8 billion in August, almost twice as much as the Treasury forecasters had expected, as high inflation pushed interest payments to an August record. The inflation rate for August - at 9.9% - was down very slightly on July's 10.1%. Despite the action on energy bills, UK consumer confidence slipped into negative territory for the first time since 2020.

The tax cuts - including the changes to stamp duty, cuts in income tax and the reversal of the rise in National Insurance - had been well trailed in advance. Supporters of the Chancellor were looking forward to the speech, while critics were already sharpening their knives, with the Institute for Fiscal Studies warning that "the tax cuts gamble will make [the UK's] debt unsustainable".

The speech

Opening remarks

Kwasi Kwarteng began by acknowledging that the cost of energy is the issue that is "worrying British people the most", and described the recent support for households and businesses as "one of the most significant interventions the British state has ever made".

However, he stressed that high energy costs are not the only challenge confronting the UK, as growth is "not as high as it should be". Mr Kwarteng therefore pledged "a new approach for a new era", with lower taxes at the heart of his strategy.

Personal taxation and allowances

What	A cut in the basic rate of income tax, from 20% to 19%.
When	April 2023.
Comment	The planned reduction in the basic rate of income tax to 19p has been brought forward by one year. The Government says this means more than 31 million people will get £170 more per year on average, and works out to a tax cut of over £5 billion a year. Mr Kwarteng says this also makes the UK's income tax system one of the most competitive in the world. There will be a one-year transitional period for Relief at Source (RAS) pension schemes to allow people to continue to claim tax relief at 20%. That means that even though the income tax rate will be 19%, personal pension contributions will get 20% tax relief at source.
What	Top rate of income tax scrapped and single higher rate to be introduced.
When	April 2023.
Comment	The highest rate of income tax currently stands at 45% and is paid by anyone who earns more than £150,000 a year. But from April 2023, a single higher rate of income tax of 40% will be introduced, a move that Mr Kwarteng believes will simplify the tax system, make Britain more competitive, reward work and incentivise growth.

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Personal taxation and allowances continued

What	Increase in dividend tax rates to be reversed.
When	April 2023.
Comment	The 1.25% increase in dividend tax rates is to be reversed, which will benefit 2.6 million dividend taxpayers with average savings of £345 in 2023-24. Additional rate taxpayers will also benefit from the scrapping of the additional rate of dividend tax. The Government believes the move will support entrepreneurs and investors, which can in turn drive economic growth.

What	Stamp duty cut.
When	September 23rd 2022.
Comment	The threshold at which Stamp Duty Land Tax (SDLT) must be paid in England and Northern Ireland has been doubled to £250,000 for all home purchases. The threshold at which first-time buyers are liable to pay SDLT, meanwhile, has increased from £300,000 to £425,000, and the value of the property on which first-time buyers can claim relief goes up from £500,000 to £625,000. Mr Kwarteng says the measures take 200,000 people “out of paying stamp duty altogether” and will be a permanent change to the SDLT system.

Business investment and taxation

What	Corporation tax increase to be cancelled.
When	Immediately.
Comment	The Government had planned to increase corporation tax from 19% to 25% in April 2023, but this will no longer go ahead. Mr Kwarteng says this will give the UK the lowest rate of corporation tax in the G20 and plough almost £19 billion a year back into the economy. This, he maintains, gives businesses more money to “reinvest, create jobs, increase wages or pay the dividends that support our pensions”.

What	Removing caps on bankers’ bonuses.
When	Immediately.
Comment	The cap on bonuses bankers are allowed to receive on top of their salaries, which was introduced by the European Union in 2014 after the global financial crisis, has been scrapped. Under the previous system, bankers’ bonuses could not be higher than twice their annual salary without the agreement of shareholders. However, the Government believes that payment in bonuses “aligns the incentives of individuals with those of the bank”, which can in turn support economic growth. Although the move is likely to prove controversial, Mr Kwarteng has insisted that the bonus cap “never capped total remuneration”, and instead pushed up the basic salaries of bankers or drove activity outside Europe. In his statement, he argued that a strong UK economy depends on a strong financial services sector, with global banks creating jobs, paying taxes and investing “here in London, not Paris, not Frankfurt, not New York”.

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Business investment and taxation continued

What New investment zones.

When No dates confirmed.

Comment The Government will liberalise planning rules in designated sites, releasing land and accelerating development. This will be accompanied by tax cuts, with enhanced tax relief for structures and buildings, 100% first year allowance on qualifying investments in plant and machinery, and no stamp duty payments on purchases of land and buildings for commercial or new residential development.

Newly occupied business premises will be exempt from business rates, and if a company residing in the designated site hires a new employee to work in the tax site for at least 60% of the time, they will pay no National Insurance on the first £50,270 that they earn.

What Simplifying IR35 rules.

When April 2023.

Comment Workers who provide services via an intermediary will be responsible for determining their employment status and paying the appropriate amount of National Insurance and tax.

The Government believes reforms to off-payroll working introduced in 2017 and 2021 have added “unnecessary complexity and cost for many businesses”. As a result, it hopes this latest change will “free up time and money for businesses that engage contractors that could be put towards other priorities.”

What Energy Bill Relief Scheme.

When Immediately (announced earlier this month).

Comment The Government will provide businesses and non-domestic energy users, including schools, hospitals and charities, with a discount on energy prices for six months.

National insurance

What	1.25% rise in National Insurance to be reversed.
When	November 6th 2022.
Comment	The Government is reducing Class 1 and Class 4 National Insurance contributions (NICs) by 1.25 percentage points from November and cancelling the introduction of the Health and Social Care Levy. This was set to be introduced in April 2023, and proved to be one of the most controversial policy announcements of Boris Johnson's premiership, as the Government had pledged not to increase NI in its election manifesto. However, Liz Truss spent much of the recent leadership contest pledging to reverse this policy. The Government says the move enables almost 28 million people to keep an extra £330, on average, of their money next year.

The cost of living crisis

What	Energy Price Guarantee (EPG).
When	Immediately (announced earlier this month).
Comment	The Government has pledged to limit the unit price that consumers pay for gas and electricity, which means typical annual household bills will be £2,500 for the next two years. This is on top of the previously announced plan to give all households £400 towards their bills this winter. As part of the Energy Price Guarantee, the Government will also cover environmental and social costs, as well as green levies, currently included in domestic energy bills, for two years.

Other measures

Alcohol duty

What	Planned duty increase for beer, cider, wine and spirits scrapped.
When	February 1st 2023.
Comment	Duty rates for beer, cider, wine and spirits will be frozen, which the Government believes will support businesses and help consumers with the cost of living. An 18-month transitional measure for wine duty has also been announced, while draught relief will be extended to cover smaller kegs of 20 litres and above, which the Government says will help smaller breweries.

VAT-free shopping

What	VAT-free shopping for overseas visitors.
When	No date confirmed.
Comment	A digital VAT-free shopping scheme, designed to boost the high street and create jobs in retail and tourism, will be introduced. Under the scheme, overseas visitors to the UK will be able to purchase items VAT-free. Although no date has yet been confirmed, Mr Kwarteng said he wants to see this put in place as soon as possible.

Universal Credit

What	Tighter rules on Universal Credit.
When	January 2023.
Comment	Universal Credit claimants who earn less than the equivalent of 15 hours a week at the National Living Wage will have to regularly meet with their work coach and actively take steps to increase their earnings, or risk having their benefits cut. The Government believes this will bring a further 120,000 people into the more intensive work search regime.

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Other measures continued

Industrial action

What	Trade unions will have to put pay offers to members.
When	No date confirmed.
Comment	The Government will legislate to require trade unions to put pay offers to a member vote, so that strikes can only be called once negotiations have genuinely broken down. Legislation to ensure Minimum Service Levels can be put in place for transport services, so that strike action does not prevent people getting to and from work, will also be introduced.

Infrastructure planning legislation

What	New laws to simplify infrastructure planning rules.
When	No date confirmed.
Comment	Legislation to simplify the planning system for major infrastructure projects is to be put forward, as the Government believes the existing process is “too slow and fragmented”. Mr Kwarteng said the time it takes to get consent for “nationally significant projects is getting slower, not quicker, while our international competitors forge ahead”. He therefore wants to streamline assessments, appraisals, consultations and regulations, and review the Government’s business case process to speed up decision-making. A list of infrastructure projects to be prioritised for acceleration has been published, covering sectors such as telecoms, energy and transport.

Reforms to the pension charge cap

What	Pension Charge Cap no longer to apply to well-designed performance fees.
When	No date confirmed.
Comment	Draft regulations to remove well-designed performance fees from the occupational defined contribution pension charge cap will be brought forward. The Government believes this will unlock pension fund investment into UK assets and innovative, high growth businesses, and ensure savers benefit from higher potential investment returns.

Reaction to the speech

Reaction to the Chancellor's speech was - as we have already seen - sharply divided. Many right-wing commentators could not contain their excitement, while those on the left derided it as a 'Budget without numbers' and one that would benefit 'only the rich'.

Writing in the Telegraph, Allister Heath described Kwarteng's statement as "the best Budget I have ever heard a Chancellor deliver, by a massive margin". He added that "hardcore, unapologetic liberal Toryism is back", before praising the Chancellor for his commitment to "a flatter and simpler tax system".

Across the political divide, the Resolution Foundation accused Kwarteng of 'blowing the Budget' with half of his planned tax cuts going to 'the richest 5%'. The £45 billion package, the Foundation said, would 'raise interest rates and see an additional £411 billion of borrowing over five years'.

There was plenty of reaction from other think tanks and lobbying groups too. Unsurprisingly, the Taxpayers' Alliance called the speech 'the most tax-friendly Budget in recent memory'. Adding a cautionary note on excessive spending, Chief Executive John O'Connell wrote: "Taxpayers will be delighted with a Budget that eases the burden on their bottom lines and promises a growth game changer."

The Adam Smith Institute was similarly enthusiastic, saying that the Mini Budget was 'the first step to getting the British economy back on track'. Head of Research Daniel Pryor said: "The planned increase in Corporation Tax would have hammered business, choked off investment and reduced workers' wages. It's also encouraging to see the Chancellor understands the importance of capital allowances."

Meanwhile, Director of the Institute for Economic Affairs Mark Littlewood commented: "This isn't a trickle-down Budget, it's a boost-up Budget. It's refreshing to hear a Chancellor talk passionately about the importance of economic growth, rather than rattling off a string of state spending pledges."

Not everyone, though, was reaching for the champagne. The Resolution Foundation added the note that growth in the short term 'is in Putin's hands rather than ours'.

Director of the Institute for Fiscal Studies Paul Johnson welcomed the cuts to stamp duty, but drew worrying parallels with Anthony Barber's 1972 'dash for growth' Budget, which 'ended in disaster' and was now 'acknowledged as the worst of modern times'.

The left-wing Momentum organisation's take on the announcements was even simpler, and used just six words: "The Tories have declared class war."

What about the markets? There are, of course, many other factors acting on the FTSE-100 index of leading shares and the pound, but the pound went into free fall after the Chancellor's statement, and by the following Monday morning, it had fallen to a record low against the dollar.

Conclusions

Kwasi Kwarteng didn't waste time in his first major speech as Chancellor. He spoke for just 25 minutes, starting by dealing with the cost of energy and then proceeded to rattle off a string of tax cuts.

“We won't apologise,” he said in conclusion, as he dismissed the ‘tax and spend’ approach of previous governments, both Conservative and Labour. “Our entire focus is on making the UK more competitive in a fiercely competitive global economy.”

Depending on your political standpoint, you may regard the statement as “the best Conservative Budget since 1986”, as Nigel Farage described it, or perhaps you feel nervous about the Chancellor's decision to ‘gamble on the biggest tax cuts in half a century’.

What is certain is that the new PM and her Chancellor will not be changing course. As Mr Kwarteng sat down, your immediate reaction might have been to wonder what further tax cuts he would introduce in his March Budget. According to the Sunday papers, we may not have to wait even that long. ‘Truss plans to cut taxes again in the New Year’ was the Sunday Telegraph headline, and the Express was rather more forthright with ‘Chancellor: You ain't seen nothing yet’.

Former Chancellor George Osborne always made the same point in his Budget speeches: whatever measures he took, the UK could easily be blown off course by factors beyond his control. Right now, that “fiercely competitive global economy” includes the conflict in Ukraine, increasing tensions between the US and China, energy prices that are far higher than they were a year ago, increasing base rates to counter inflation and seemingly endless supply chain problems.

So the world - and the global economy - may look very different by the time Kwasi Kwarteng rises to present his March Budget. Rest assured though, that whatever happens in the next six months, we will - as always - keep you fully up to date with all the news, and how it impacts your savings, investments and long-term financial planning.

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